

SHERMAN TOWNSHIP, MICHIGAN

FINANCIAL REPORT

Year ended March 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name SHERMAN TOWNSHIP	County KEWEENAW
Audit Date 3/31/05	Opinion Date 6/24/05	Date Accountant Report Submitted to State: 7/27/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

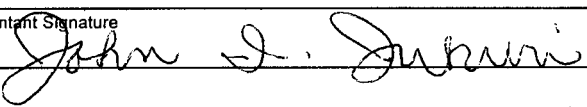
Certified Public Accountant (Firm Name) JOHN I. JUKURI, CPA			
Street Address 56730 CALUMET AVE, SUITE J	City CALUMET	State MI	ZIP 49913
Accountant Signature 		Date 7/27/05	

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	3
Financial Statements:	
Exhibit A - Combined Balance Sheet - All Fund Types	5
Exhibit B - Combined Statement of Cash Receipts, Disbursements and Changes in Fund Balances - All Governmental Fund Types	6
Exhibit C - Combined Statement of Cash Receipts, Disbursements and Changes in Fund Balances -Budget and Actual - General Fund	8
Exhibit D - Combined Statement of Revenues, Expenses and Changes in Retained Earnings - Proprietary Fund Type	10
Exhibit E - Combined Statement of Cash Flows - Proprietary Fund Type	11
Notes to Financial Statements	12
Supplementary Financial Information:	
Combining Financial Statements:	
Combining Statement of Assets, Liabilities and Fund Balances - All Special Revenue Funds	23
Combining Statement of Cash Receipts, Disbursements and Changes in Fund Balances - All Special Revenue Funds	24
Combining Balance Sheets - Proprietary Funds	25
Combining Statement of Revenues, Expenses and Changes in Retained Earnings - Proprietary Funds	26
Combining Statement of Cash Flows - Proprietary Funds	27
Combining Statement of Assets and Liabilities - All Agency Funds	28
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	29
Federal Programs:	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31

JOHN I. JUKURI
CERTIFIED PUBLIC ACCOUNTANT
56730 Calumet Avenue, Suite J
Calumet, Michigan 49913
Tel. (906) 337-0662
Fax (906) 337-2587

INDEPENDENT AUDITOR'S REPORT

Board Members
Sherman Township, Michigan

I have audited the financial statements of Sherman Township, Michigan, as of and for the year ended March 31, 2005. These financial statements are the responsibility of the Township's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The procedures used to collect cash receipts from sales at fund raising events, and the lack of evidential matter with respect to those cash receipts, do not permit me to apply auditing procedures to satisfy myself as to the reasonableness of such cash receipts stated in the accompanying financial statements.

As discussed in Note (1) C to the financial statements, management has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

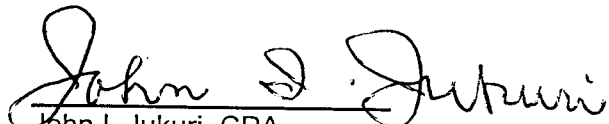
As discussed in Note (1) D, Sherman Township, Michigan, prepares certain financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The Township has not adopted budgets for all of its governmental fund types as mentioned in Note (2).

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Township's governmental activities and business-type activities are not reasonably determinable.

In my opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Sherman Township, Michigan, as of March 31, 2005, or the changes in its financial position or its cash flows, where applicable, for the year then ended.

In accordance with *Government Auditing Standards*, I have also issued a report dated June 24, 2005 on my consideration of Sherman Township, Michigan's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.


John I. Jukuri, CPA

Calumet, Michigan
June 24, 2005

SHERMAN TOWNSHIP, MICHIGAN

Exhibit A

COMBINED BALANCE SHEET - ALL FUND TYPES

March 31, 2005

	<u>Governmental Fund Type</u>		<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Group</u>	<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Trust and Agency</u>	<u>General Long-Term Debt</u>	<u>(Memorandum Only)</u>
<u>ASSETS</u>						
Cash	\$ 43,011	\$ 4,637	\$ 5,454	\$ 40,531	\$	\$ 93,633
Investments		3,459				3,459
Receivables:						
Accounts receivable, net			4,583			4,583
Taxes receivable			1,037			1,037
Interest			26			26
Due from other funds	6,671					6,671
Restricted cash			21,086			21,086
Restricted investments			6,000			6,000
Fixed assets, net			579,385			579,385
Construction-in-progress			34,719			34,719
Deferred bond issue cost			5,605			5,605
Amount to be provided for debt service					12,610	12,610
TOTAL ASSETS	\$ 49,682	\$ 8,096	\$ 657,895	\$ 40,531	\$ 12,610	\$ 768,814
	=====	=====	=====	=====	=====	=====
<u>LIABILITIES AND FUND EQUITY</u>						
<u>LIABILITIES</u>						
Accounts payable	\$	\$	\$ 6,117	\$	\$	\$ 6,117
Construction payable			32,769			32,769
Accrued expenses			496			496
Payable from restricted assets:						
Interest payable			1,209			1,209
Current maturities of bonds & notes			2,500			2,500
Deferred revenue			278			278
Due to other funds			2,061	4,458		6,519
Due to other governmental units				36,073		36,073
Note payable					12,610	12,610
Bonds payable			151,500			151,500
TOTAL LIABILITIES			196,930	40,531	12,610	250,071
<u>FUND EQUITY</u>						
Contributed capital			412,619			412,619
Retained earnings:						
Reserved for debt service			19,182			19,182
Reserved for general purposes			4,195			4,195
Unreserved			24,969			24,969
Fund balance:						
Unreserved	49,682	8,096				57,778
TOTAL FUND EQUITY	49,682	8,096	460,965			518,743
TOTAL LIAB. & FUND EQUITY	\$ 49,682	\$ 8,096	\$ 657,895	\$ 40,531	\$ 12,610	\$ 768,814
	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP, MICHIGAN

Exhibit B

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES**

Year ended March 31, 2005

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
RECEIPTS:			
Taxes:			
Current & delinquent	\$ 27,515	\$	\$ 27,515
Administrative fees & other	<u>1,943</u>		<u>1,943</u>
Total Taxes	<u>29,458</u>		<u>29,458</u>
State aid	<u>6,701</u>	<u>399</u>	<u>7,100</u>
Charges for services:			
Garbage collections	<u>8,807</u>		<u>8,807</u>
Interest & Rents:			
Interest	69	51	120
Rents	<u>50</u>		<u>50</u>
Total Interest & Rents	<u>119</u>	<u>51</u>	<u>170</u>
Other	<u>131</u>	<u>1,137</u>	<u>1,268</u>
TOTAL RECEIPTS	<u>45,216</u>	<u>1,587</u>	<u>46,803</u>
DISBURSEMENTS:			
Legislative:			
Township board	<u>3,704</u>		<u>3,704</u>
General Government:			
Supervisor	2,283		2,283
Treasurer	4,023		4,023
Assessor	2,400		2,400
Clerk	2,597		2,597
Elections	559		559
Town hall	108		108
Board of review	<u>152</u>		<u>152</u>
Total General Government	<u>12,122</u>		<u>12,122</u>
Public Safety:			
Liquor law enforcement		390	390
Fire protection	<u>3,982</u>	<u>1,035</u>	<u>5,017</u>

SHERMAN TOWNSHIP, MICHIGAN

Exhibit B

COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES

Year ended March 31, 2005

	Governmental Fund Types		
	General	Special Revenue	Totals (Memorandum Only)
Total Public Safety	<u>3,982</u>	<u>1,425</u>	<u>5,407</u>
Public Works:			
Roads	878		878
Street lights	1,321		1,321
Sanitation	<u>7,911</u>		<u>7,911</u>
Total Public Works	<u>10,110</u>		<u>10,110</u>
Other:			
Insurance	9,658		9,658
Employee benefits	1,300		1,300
Miscellaneous	<u>271</u>		<u>271</u>
Total Other	<u>11,229</u>		<u>11,229</u>
Capital Outlay:			
General government	<u>340</u>		<u>340</u>
Total Capital Outlay	<u>340</u>		<u>340</u>
Debt Service:			
Principal	895		895
Interest	<u>620</u>		<u>620</u>
TOTAL DISBURSEMENTS	<u>43,002</u>	<u>1,425</u>	<u>44,427</u>
Excess of receipts over (under) disbursements	2,214	162	2,376
Fund Balance - March 31, 2004	<u>47,468</u>	<u>7,934</u>	<u>55,402</u>
FUND BALANCE - MARCH 31, 2005	<u>\$ 49,682</u> =====	<u>\$ 8,096</u> =====	<u>\$ 57,778</u> =====

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP, MICHIGAN

Exhibit C

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND**

Year ended March 31, 2005

	GENERAL FUND		
	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
RECEIPTS:			
Taxes:			
Current & delinquent	\$ 27,800	\$ 27,515	\$ (285)
Administrative fees & other		1,943	1,943
Total Taxes	<u>27,800</u>	<u>29,458</u>	<u>1,658</u>
State aid	<u>4,200</u>	<u>6,701</u>	<u>2,501</u>
Charges for services:			
Garbage collections	<u>8,400</u>	<u>8,807</u>	<u>407</u>
Interest & Rents:			
Interest	200	69	(131)
Rents	<u>60</u>	<u>50</u>	<u>(10)</u>
Total Interest & Rents	<u>260</u>	<u>119</u>	<u>(141)</u>
Other		<u>131</u>	<u>131</u>
TOTAL RECEIPTS	<u>40,660</u>	<u>45,216</u>	<u>4,556</u>
DISBURSEMENTS:			
Legislative:			
Township board	<u>700</u>	<u>3,704</u>	<u>(3,004)</u>
General Government:			
Supervisor	2,300	2,283	17
Treasurer	2,550	4,023	(1,473)
Assessor	2,600	2,400	200
Clerk	2,200	2,597	(397)
Elections	650	559	91
Town hall	800	108	692
Board of review	<u>700</u>	<u>152</u>	<u>548</u>
Total General Government	<u>11,800</u>	<u>12,122</u>	<u>(322)</u>
Public Safety:			
Fire protection	<u>4,200</u>	<u>3,982</u>	<u>218</u>

SHERMAN TOWNSHIP, MICHIGAN

Exhibit C

COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND

Year ended March 31, 2005

	GENERAL FUND		
	Budget	Actual	Variance Favorable (Unfavorable)
Public Works:			
Roads	1,450	878	572
Street lighting		1,321	(1,321)
Sanitation	8,000	7,911	89
Total Public Works	9,450	10,110	(660)
Other:			
Insurance	7,200	9,658	(2,458)
Employee benefits	1,700	1,300	400
Miscellaneous	4,000	271	3,729
Total Other	12,900	11,229	1,671
Capital Outlay:			
General government		340	(340)
Debt Service:			
Principal	895	895	
Interest	680	620	60
TOTAL DISBURSEMENTS	40,625	43,002	(2,377)
Excess of receipts over (under) disbursements	35	2,214	2,179
Fund Balance - March 31, 2004	47,468	47,468	
FUND BALANCE - MARCH 31, 2005	\$ 47,503	\$ 49,682	\$ 2,179
	=====	=====	=====

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP, MICHIGAN

Exhibit D

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS - PROPRIETARY FUND TYPE

Year ended March 31, 2005

ENTERPRISE FUNDS

OPERATING REVENUES:

Water fees	\$ 18,044
Sewer fees	<u>15,827</u>

TOTAL OPERATING REVENUES	<u>33,871</u>
--------------------------	---------------

OPERATING EXPENSES:

Wages, payroll taxes & benefits	5,447
Miscellaneous	3,640
Testing	1,224
Utilities	4,085
Operating supplies & repairs	7,858
Depreciation & amortization	16,504
Bad debt	<u>4,462</u>

TOTAL OPERATING EXPENSES	<u>43,220</u>
--------------------------	---------------

OPERATING INCOME (LOSS)	<u>(9,349)</u>
-------------------------	----------------

NONOPERATING REVENUES (EXPENSES):

Interest income	533
Interest expense	<u>(7,061)</u>

TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(6,528)</u>
--	----------------

NET INCOME (LOSS)	(15,877)
-------------------	----------

Add back depreciation on assets acquired with contributed capital	11,374
--	--------

(Increase) decrease in reserve accounts	<u>(3,464)</u>
---	----------------

INCREASE IN RETAINED EARNINGS	(7,967)
-------------------------------	---------

Retained Earnings - Unreserved - Beginning	<u>32,936</u>
--	---------------

RETAINED EARNINGS - UNRESERVED - ENDING	<u>\$ 24,969</u> =====
---	---------------------------

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP, MICHIGAN

Exhibit E

COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE

Year ended March 31, 2005

ENTERPRISE FUNDS

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating income (loss)	\$ (9,349)
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities:	
Depreciation	16,504
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	1,793
Taxes receivable	(1,037)
Increase (decrease) in:	
Accounts payable	4,939
Accrued expenses	45
Deferred revenues	(26)

Net cash provided by operating activities 12,869

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:

Principal paid on revenue bonds	(2,500)
Interest paid on revenue bonds	<u>(7,099)</u>

Net cash used by capital and related financing activities (9,599)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	<u>709</u>
-----------------	------------

INCREASE IN CASH AND RESTRICTED CASH 3,979

Cash and Restricted Cash - Beginning 22,561

CASH AND RESTRICTED CASH - ENDING \$ 26,540
=====

The accompanying notes are an integral part of the financial statements.

SHERMAN TOWNSHIP, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

March 31, 2005

(1) Summary of Significant Accounting Policies

A. Description of Township Operations

Sherman Township was organized as a General Law Township and is located in Keweenaw County, Michigan. It covers an area of approximately 65 square miles. The Township operates under an elected Board of Trustees consisting of five members, which are a supervisor, clerk, treasurer and two trustees. It also has one constable. The Township provides many services including law enforcement, fire protection, a water supply system, solid waste disposal, sanitation, recreation and community enrichment.

B. Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Local Unit (primary government) and its component units, when applicable. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. When applicable, discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government. The Township has no component units.

C. Basis of Presentation

The accounts of the Township are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the Township are recorded in separate funds and account groups, categorized as follows:

GOVERNMENTAL FUNDS

General Fund - This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, intergovernmental revenues and charges for services. The fund includes the general operating expenditures of the Township.

Special Revenue Funds - These funds are used to account for specific revenue sources (other than major capital projects) which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements. This fund type includes the Volunteer Firemen and Liquor Funds.

Capital Projects Fund - These funds are used to account for the acquisition or construction of major facilities other than those financial by proprietary fund operations.

PROPRIETARY FUNDS

Enterprise Fund - These funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and or/net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. This fund type includes the Water and Sewer Funds.

FIDUCIARY FUND

Agency Funds - These funds account for assets held by the Township as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund type includes the Current and Delinquent Tax Account Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group - The Township has not established this account group. This account group should present the fixed assets of the Township which are utilized in its general operations (nonproprietary fixed assets) and could include, depending on management's policy, assets known collectively as infrastructure assets - roads, drainage systems, and similar assets. Acquisition costs of these assets are included in disbursements in the year of purchase.

General Long-Term Debt Account Group - This account group presents the balance of general obligation long-term debt of the Township which is not recorded in the proprietary funds.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made regardless of the measurement focus applied.

Generally accepted accounting principles require that governmental fund types and agency funds be recorded on the modified accrual basis of accounting. Under modified accrual basis of accounting revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to finance liabilities of the current period. Current expenditures are generally recorded when the related fund liability is incurred, if measurable. However, the Township's governmental fund types and agency funds are recorded on the cash basis of accounting which is not in accordance with generally accepted accounting principles. Under the cash basis of accounting, revenues are recorded when received and expenditures are recorded when paid.

The proprietary fund types are accounted for on a cost-of-service "capital maintenance" measurement focus, using the accrual basis of accounting. Their revenues are recorded

when they are earned and expenses are recorded when they are incurred. The Township applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

E. Budgets

The Township is required to follow the budget system provided by Michigan Public Act 621 - Uniform Budgeting and Accounting Act. The budget basis of accounting does not differ significantly from the method used to reflect actual receipts and disbursements. Budgeted receipts and disbursements, as presented in Exhibit C, include authorized amendments to the original budgets as adopted. Budgets are adopted at the activity level. Appropriations lapse at year end.

F. Cash, Cash Equivalents and Investments

Cash includes amounts in demand deposits and savings deposits. For purposes of the statement of cash flows, demand deposits and short-term investments with maturities of three months or less when acquired are considered to be cash equivalents. In addition the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. As of March 31, 2005, the Township has no cash equivalents.

The Township's investments are stated at cost, which approximates market, and consist of certificates of deposit that have maturities in excess of three months from the date acquired.

G. Restricted Assets

Certain resources set aside for enterprise fund revenue bonds repayment and general purposes, are classified as restricted assets on the balance sheet because their use is limited by the applicable bond covenant. The following two reserve accounts are referred to as debt service reserve in the financial statements. The bond interest and redemption account is used to report resources set aside to meet the next ensuing principal and interest payments. The bond reserve account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The general purpose reserve account is used to report resources set aside to meet unexpected contingencies (repair and maintenance), improvements to the system and, if necessary, make principal and interest payments on the bonds.

H. Receivables and Payables

During the course of operations, transactions occur between individual funds. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Noncurrent interfund loans are classified as "advances to/from other funds." Advances between funds are offset by a fund balance reserve account in the applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Receivables are shown net of an allowance for uncollectible, where applicable.

I. Fixed Assets

Fixed assets are stated at historical cost or estimated historical cost if actual historical costs are not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Public domain (infrastructure) general fixed assets (i.e. roads, sidewalks and other assets that are immovable and of value only to the Township) are not capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not included in the general fixed assets account or capitalized in the proprietary funds.

Material net interest expense incurred during the construction of proprietary fund assets is capitalized.

Depreciation of proprietary fund assets are provided over their estimated useful lives using the straight-line method. The estimated useful life of the water system is fifty years.

J. Long-Term Debt

Governmental fund type long-term debt obligations expected to be financed from expendable available financial resources are reported as a liability of a governmental fund.

The remaining portion of such obligations are reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds. For governmental fund types, long-term debt proceeds are reported as other financing sources in the statement of cash receipts, disbursements and changes in fund balances, when applicable.

K. Fund Equity

Contributed capital is recorded in proprietary funds for capital grants or contributions.

Retained earnings and fund balance reserves are established to identify third party claims against resources of the Township that have not materialized as liabilities at the balance sheet date and the existence of assets that, because of their nature or lack of liquidity represent financial resources not available for current appropriation or expenditure.

L. Property Taxes

In accordance with State statutes property taxes are levied on December 1 and are due and payable on or before February 14 of the following calendar year at which time all unpaid taxes become delinquent. The Township bills and collects its own property taxes. Unpaid delinquent real property tax amounts are collected by the County. Unpaid personal property taxes are collected by the Township.

M. Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. All risk of loss is covered by commercial insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

N. Total Column on Combined Statements

The total column on the combined statements is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

O. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amount of revenues and expenses during the period. Actual results could differ from those estimated.

P. Comparative Data/Reclassifications

Comparative data for the prior year have been presented in selected sections of the accompanying financial statements. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

(2) Stewardship, Compliance and Accountability

BUDGET VIOLATIONS

MI Public Act 621 of 1978, Section 18(1), as amended, requires the adoption of balanced budgets for the General and Special Revenue Funds. During the year ended March 31, 2005, the Township failed to adopt all of the required budgets. In addition, the Township incurred expenditures in excess of the amounts appropriated in the General Fund of \$2,377.

(3) Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township has designated one bank for the deposit of its funds. The investments policy adopted by the board is in accordance with Public Act 196 of 1997.

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosure for deposits at year end are as follows:

	Bank Balance <u>Primary Government</u>
Deposits - Insured (FDIC)	\$ 124,767 =====

At year end, the balance sheet carrying amount of cash, investments, restricted cash and restricted investment deposits was \$124,178. Investments include certificates of deposit only with maturity dates of three months or more.

(4) Interfund Receivables and Payables

The Township has interfund receivables and payables at March 31, 2005 as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General	\$ 6,671	Sewer Fund	\$ 2,061
		Current Tax Account	<u>4,610</u>
Total	<u>\$ 6,671</u> =====	Total	<u>\$ 6,671</u> =====

(5) Fixed Assets

A summary of proprietary fund type fixed assets at March 31, 2005 follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Equipment	\$	\$ 10,230	\$ 10,230
Land	500	2,500	3,000
Water supply system	106,708		106,708
Sewer system		<u>528,001</u>	<u>528,001</u>
	107,208	540,731	647,939
Accumulated depreciation	<u>(40,108)</u>	<u>(28,446)</u>	<u>(68,554)</u>
	<u>\$ 67,100</u> =====	<u>\$ 512,285</u> =====	<u>\$ 579,385</u> =====

(6) Long-Term Debt

The following is a summary of the long-term debt outstanding of the Township as of March 31, 2005:

	<u>Balance 3/31/04</u>	<u>Additions (Reductions)</u>	<u>Balance 3/31/05</u>
General Long-Term Debt Account Group (GLTDAG)			
Note payable - USDA Rural Development due in annual principal installments of \$895 to \$1005 through December 2002; interest rate is 4.75% payable June 1 and December 1	<u>\$ 13,505</u> =====	<u>\$ (895)</u> =====	<u>\$ 12,610</u> =====
Enterprise Fund Revenue Bonds - \$39,000 Water Supply System Revenue Bonds due in annual principal installments of \$1,000 through January 1, 2022; interest rate is 5% payable January 1 and July 1	<u>\$ 18,000</u>	<u>\$ (1,000)</u>	<u>\$ 17,000</u>

Special Assessment Bond -

\$140,000 2002 Special Assessment Bond
for a sewer project. Due in annual install-
ments of \$1,500 to \$6,500 through August
2042; interest rate is 4.5% payable
February 1 and August 1

\$ 138,500	\$ (1,500)	\$ 137,000
------------	------------	------------

\$156,500	\$ (2,250)	\$ 154,000
-----------	------------	------------

=====	=====	=====
-------	-------	-------

The annual principal and interest requirements through maturity for all debts outstanding as of
March 31, 2005 are as follows:

	<u>GLTDAG</u>	<u>Enterprise Fund</u>	<u>Total</u>
2005 Remaining	\$ 1,499	\$ 5,965	\$ 7,464
2006	1,456	9,318	10,774
2007	1,413	9,205	10,618
2008	1,371	9,592	10,963
2009	1,428	9,457	10,885
2010	1,380	9,323	10,703
2011-2015	6,190	45,565	51,755
2016-2020	2,153	44,240	46,393
2021-2025		38,623	38,623
2026-2030		37,640	37,640
2031-2035		37,258	37,258
2036-2040		35,795	35,795
2041-2042		13,355	13,355
Total payments	16,890	305,336	322,226
Less interest	<u>4,280</u>	<u>151,336</u>	<u>155,616</u>
Principal	\$ 12,610	\$ 154,000	\$ 166,610
	=====	=====	=====

Total interest incurred by the Township for the year approximated \$ 7,681.

(7) Contributed Capital

During the year, contributed capital increased (decreased) by the following amount:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Contributed Capital, March 31, 2004	\$ 36,168	\$ 376,451	\$ 412,619
Capital contributions received			
Depreciation on contributed capital assets	<u>(1,171)</u>	<u>(10,203)</u>	<u>(11,374)</u>
Contributed Capital, March 31, 2005	\$ 34,997	\$ 366,248	\$ 401,245
	=====	=====	=====

(8) Reserved Fund Equity and Restricted Assets

The Township has satisfied the debt service and general purpose reserve requirements in accordance with its bonding ordinance. The amount of retained earnings reserved at March 31, 2005 is as follows:

	<u>Total</u>	<u>Debt Service</u>	<u>General Purposes</u>
Water Fund:			
Restricted Assets - Investments	\$ 6,000	\$ 3,000	\$ 3,000
Less payables from restricted assets:			
Interest payable	(210)	(210)	
Current maturities of revenue bonds	<u>(1,000)</u>	<u>(1,000)</u>	
	<u>4,790</u>	<u>1,790</u>	<u>3,000</u>
Sewer Fund:			
Restricted Assets - Cash	21,086	19,891	1,195
Less payables from restricted assets:			
Interest payable	(999)	(999)	
Current maturities of revenue bonds	<u>(1,500)</u>	<u>(1,500)</u>	
	<u>18,587</u>	<u>17,392</u>	
Total Reserved Retained Earnings	<u>\$ 23,377</u>	<u>\$ 19,182</u>	<u>\$ 4,195</u>

(9) Property Tax

The 2004 taxable value of Sherman Township amounted to \$3,110,339. The 2004 ad valorem taxes levied consists of 1.2888 mills for Township operating purposes and 4.1428 mills for extra voted, raising \$4,009 and \$12,886 respectively. These amounts are recognized in the General Fund.

(10) Retirement

The Township contributes to a defined contribution pension plan in lieu of funding Social Security in accordance with I.R.S. approval.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

As established by the Township, all officials and full and permanent part time employees are eligible under the plan. Contributions made by an employee or the Township vest 100% immediately. An employee that leaves the employment of the Township is entitled to his or her contributions and the Townships contributions in the form of a retirement benefit that can be provided by his accrued benefit under the given annuity contract. The Township currently contributes 9% of wages paid. Participants under the plan voluntarily contribute 3% of wages to their respective account.

The Township's pension expense amounted to \$1,489 for the year ended March 31, 2005.

The Township's defined contribution plan held no securities of Sherman Township or other related parties during the year.

(13) Contingent Liabilities

Grants

The Township receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency.

SUPPLEMENTARY FINANCIAL INFORMATION

COMBINING FINANCIAL STATEMENTS

SHERMAN TOWNSHIP, MICHIGAN

COMBINING STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
ALL SPECIAL REVENUE FUNDS

March 31, 2005

	<u>Volunteer Firemen</u>	<u>Liquor</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 4,372	\$ 265	\$ 4,637
Investments	<u>3,459</u>	<u> </u>	<u>3,459</u>
TOTAL ASSETS	\$ 7,831 =====	\$ 265 =====	\$ 8,096 =====
 <u>LIABILITIES AND FUND BALANCE</u>			
FUND BALANCE	\$ 7,831 =====	\$ 265 =====	\$ 8,096 =====

SHERMAN TOWNSHIP, MICHIGAN

COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES
ALL SPECIAL REVENUE FUNDS

Year ended March 31, 2005

	<u>Volunteer Firemen</u>	<u>Liquor</u>	<u>Total</u>
RECEIPTS:			
State aid	\$	\$ 399	\$ 399
Interest	51		51
Other	<u>1,137</u>	<u></u>	<u>1,137</u>
TOTAL RECEIPTS	<u>1,188</u>	<u>399</u>	<u>1,587</u>
DISBURSEMENTS:			
Public safety	<u>1,035</u>	<u>390</u>	<u>1,425</u>
TOTAL DISBURSEMENTS	<u>1,035</u>	<u>390</u>	<u>1,425</u>
Excess of receipts over (under) disbursements	153	9	162
Fund Balance - March 31, 2004	<u>7,678</u>	<u>256</u>	<u>7,934</u>
FUND BALANCE - MARCH 31, 2005	\$ 7,831 =====	\$ 265 =====	\$ 8,096 =====

SHERMAN TOWNSHIP, MICHIGAN

COMBINING BALANCE SHEETS PROPRIETARY FUNDS

March 31, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>ASSETS</u>			
Current Assets:			
Cash	\$ 2,454	\$ 3,000	\$ 5,454
Accounts receivable, net	3,339	1,244	4,583
Taxes receivable		1,037	1,037
Interest receivable	<u>26</u>		<u>26</u>
Total Current Assets	5,819	5,281	11,100
Restricted cash		21,086	21,086
Restricted investments	6,000		6,000
Fixed assets, net	67,100	512,285	579,385
Construction-in-progress	34,719		34,719
Deferred bond issue costs, net		<u>5,605</u>	<u>5,605</u>
TOTAL ASSETS	\$ 113,638 =====	\$ 544,257 =====	\$ 657,895 =====
<u>LIABILITIES AND FUND EQUITY</u>			
Current Liabilities:			
Accounts payable	\$ 5,726	\$ 391	\$ 6,117
Construction payable	32,769		32,769
Accrued expenses	417	79	496
Deferred revenue	252	26	278
Due to other funds		<u>2,061</u>	<u>2,061</u>
Total Current Liabilities	39,164	2,557	41,721
Payables from Restricted Assets:			
Interest payable	210	999	1,209
Current maturities of bonds and notes	1,000	1,500	2,500
Bonds payable	<u>16,000</u>	<u>135,500</u>	<u>151,500</u>
TOTAL LIABILITIES	<u>56,374</u>	<u>140,556</u>	<u>196,930</u>
Fund Equity:			
Contributed capital	36,168	376,451	412,619
Retained earnings:			
Reserved for debt service	1,790	17,392	19,182
Reserved for general purposes	3,000	1,195	4,195
Unreserved	<u>16,306</u>	<u>8,663</u>	<u>24,969</u>
Total Fund Equity	<u>57,264</u>	<u>403,701</u>	<u>460,965</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ 113,638 =====	\$ 544,257 =====	\$ 657,895 =====

SHERMAN TOWNSHIP, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS -
PROPRIETARY FUNDS**

Year ended March 31, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES:			
Water fees	\$ 18,044	\$	\$ 18,044
Sewer fees		<u>15,827</u>	<u>15,827</u>
TOTAL OPERATING REVENUES	<u>18,044</u>	<u>15,827</u>	<u>33,871</u>
OPERATING EXPENSES:			
Wages, payroll taxes & benefits	4,645	802	5,447
Miscellaneous	3,175	465	3,640
Testing	994	230	1,224
Utilities	2,551	1,534	4,085
Operating supplies & repairs	7,512	346	7,858
Depreciation & amortization	2,134	14,370	16,504
Bad debt	<u>3,675</u>	<u>787</u>	<u>4,462</u>
TOTAL OPERATING EXPENSES	<u>24,686</u>	<u>18,534</u>	<u>43,220</u>
OPERATING INCOME (LOSS)	<u>(6,642)</u>	<u>(2,707)</u>	<u>(9,349)</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	358	175	533
Interest expense	<u>(888)</u>	<u>(6,173)</u>	<u>(7,061)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(530)</u>	<u>(5,998)</u>	<u>(6,528)</u>
NET INCOME (LOSS)	(7,172)	(8,705)	(15,877)
Add back depreciation on assets acquired with contributed capital	1,171	10,203	11,374
(Increase) decrease in reserve accounts		<u>(3,464)</u>	<u>(3,464)</u>
INCREASE IN RETAINED EARNINGS	(6001)	(1,966)	(7,967)
Retained Earnings - Unreserved - Beginning	<u>22,307</u>	<u>10,629</u>	<u>32,936</u>
RETAINED EARNINGS - UNRESERVED - ENDING	\$ 16,306 =====	\$ 8,663 =====	\$ 24,969 =====

SHERMAN TOWNSHIP, MICHIGAN

**COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

Year ended March 31, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income	\$ (6,642)	\$ (2,707)	\$ (9,349)
Adjustments to reconcile net operating income to net cash provided by operating activities:			
Depreciation & amortization	2,134	14,370	16,504
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	1,444	349	1,793
Taxes receivable		(1,037)	(1,037)
Increase (decrease) in:			
Accounts payable	4,799	140	4,939
Accrued expenses	74	(29)	45
Deferred revenues		(26)	(26)
Net cash provided by operating activities	<u>1,809</u>	<u>11,060</u>	<u>12,869</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal paid on revenue bonds	(1,000)	(1,500)	(2,500)
Interest paid on revenue bonds	<u>(900)</u>	<u>(6,199)</u>	<u>(7,099)</u>
Net cash used by capital and related financing activities	<u>(1,900)</u>	<u>(7,699)</u>	<u>(9,599)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income	<u>365</u>	<u>344</u>	<u>709</u>
INCREASE IN CASH	274	3,705	3,979
Cash and Restricted Cash - Beginning	<u>2,180</u>	<u>20,381</u>	<u>22,561</u>
CASH AND RESTRICTED CASH – ENDING	\$ 2,454	\$ 24,086	\$ 26,540
	=====	=====	=====

SHERMAN TOWNSHIP, MICHIGAN

COMBINING STATEMENT OF ASSETS AND LIABILITIES
ALL AGENCY FUNDS

March 31, 2005

	Current Tax <u>Account</u>	Delinquent Tax <u>Account</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 40,531 =====	\$ 0 =====	\$ 40,531 =====
 <u>LIABILITIES</u>			
Due to other funds	\$ 4,458	\$	\$ 4,458
Due to other governmental units	<u>36,073</u>	<u></u>	<u>36,073</u>
 TOTAL LIABILITIES	\$ 40,531 =====	\$ 0 =====	\$ 40,531 =====

SHERMAN TOWNSHIP, MICHIGAN

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS**

March 31, 2005

	<u>Balance March 31, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2005</u>
<u>CURRENT TAX ACCOUNT</u>				
ASSETS:				
Cash	\$ 39,933 =====	\$ 175,861 =====	\$ 175,263 =====	\$ 40,531 =====
LIABILITIES:				
Due to other funds	\$ 4,351	\$ 38,104	\$ 37,997	\$ 4,458
Due to other governmental units & others	<u>35,582</u>	<u>137,757</u>	<u>137,266</u>	<u>36,073</u>
TOTAL LIABILITIES	\$ 39,933 =====	\$ 175,861 =====	\$ 175,263 =====	\$ 40,531 =====
<u>DELINQUENT TAX ACCOUNT</u>				
ASSETS:				
Cash	\$ 0 =====	\$ 154 =====	\$ 154 =====	\$ 0 =====
LIABILITIES:				
Due to other governmental units & others	\$ 0 =====	\$ 154 =====	\$ 154 =====	\$ 0 =====
<u>TOTAL AGENCY FUNDS</u>				
ASSETS:				
Cash	\$ 39,933 =====	\$ 176,015 =====	\$ 175,417 =====	\$ 40,531 =====
LIABILITIES:				
Due to other funds	\$ 4,351	\$ 38,104	\$ 37,997	\$ 4,458
Due to other governmental units & others	<u>35,582</u>	<u>137,911</u>	<u>137,420</u>	<u>36,073</u>
TOTAL LIABILITIES	\$ 39,933 =====	\$ 176,015 =====	\$ 175,417 =====	\$ 40,531 =====

FEDERAL PROGRAMS

SHERMAN TOWNSHIP, MICHIGAN

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board Members
Sherman Township, Michigan

I have audited the financial statements of the governmental activities and the business-type activities of Sherman Township, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township of Sherman, Michigan's basic financial statements and have issued my report thereon dated June 24, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sherman Township, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that I have reported to the management of Sherman Township in a separate letter dated June 24, 2005.

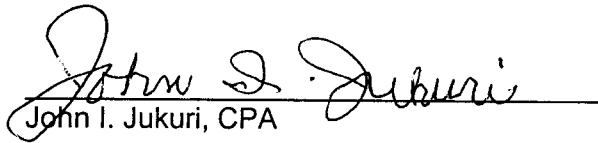
Internal Control Over Financial Reporting

In planning and performing my audit, I considered Sherman Township, Michigan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Sherman Township, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted is an absence of appropriate segregation of duties due to a limited number of available personnel. If an adequate number of personnel were available, a proper segregation of duties would provide reasonable assurance that not one employee would have access to both physical assets and the related accounting records, or to all phases of a transaction. Because of the absence of an appropriate segregation of duties, there is a possibility that unintentional or intentional errors or irregularities could exist and not be promptly detected.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily

disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition is not a material weakness.

This report is intended solely for the information of the board membership, management, and applicable Federal and State agencies and is not intended to be and should not be used by anyone other than these specified parties.


John I. Jukuri, CPA

Calumet, Michigan
June 24, 2005

JOHN I. JUKURI
CERTIFIED PUBLIC ACCOUNTANT
56730 Calumet Avenue, Suite J
Calumet, Michigan 49913
Tel. (906) 337-0662
Fax (906) 337-2587

July 27, 2005

Board Members
Sherman Township, Michigan

In planning and performing my audit of the financial statements of Sherman Township, Michigan, for the year ended March 31, 2005, I considered the Township's internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. I noted certain matters involving the internal control and its operation and other items that came to my attention in the normal conduct of my audit that are presented to assist in improving accounting procedures and controls.

Generally Accepted Accounting Principles

1. The financial statements of the governmental fund types of the Township are prepared on a cash basis of accounting. In accordance with generally accepted accounting principles, I recommend that these fund types be prepared on a modified accrual basis of accounting.
2. Currently, the Township does not maintain a general fixed asset account group for its non-proprietary fund types. I recommend that this account be maintained in order to comply with generally accepted accounting principles. The Township may experience difficulty in acquiring certain cost information when establishing initial property records, however, GASB Cod. sec. 1400.112 permits the use of estimated costs.
3. Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities. In accordance with generally accepted accounting principles (GASB 34), I recommend that management present these government-wide statements.

Internal Controls

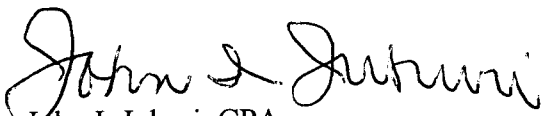
4. The size of the Township's accounting and administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Township Board remain involved in the financial affairs of the Township to provide oversight and independent review functions. As part of this function and the strengthening of internal controls, I recommend the Board require two signatures on all checks.

Compliance

5. The Township did not comply with Michigan Public Act 621 of 1978, the Uniform Budgeting and Accounting Act by not adopting balanced budgets for all of its governmental fund types. In addition, expenditures exceeded appropriation in the General Fund by \$2,377. I recommend that the Board adopt appropriate policies and procedures to insure that the budgeting laws are properly followed.

This report is intended for the information and use of the Board membership and applicable Federal and State agencies. I would be pleased to discuss any of the comments with you at your convenience.

Sincerely,



John I. Jukuri, CPA